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CURRENT INTELLIGENCE WEEKLY SUMMARY



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CENTRAL INTELLIGENCE AGENCY
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~~SECRET~~

CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

CONFIDENTIAL

THE WEEK IN BRIEF

PART I

OF IMMEDIATE INTEREST

BLOC REACTION TO US ELECTION Page 1

The main themes conveyed in Moscow's reaction to the US election are that Senator Kennedy's victory opens the way for a new era in US-Soviet relations and that the Soviet Government will respond favorably to any new American initiatives to improve the international situation. Moscow's reaction strongly suggests that the Soviet premier's present aim is to reduce the post-summit hostility and create a favorable atmosphere for a return to high-level negotiations. Khrushchev's desire to resume negotiations takes on added significance in view of the current discussions among world Communist leaders over Sino-Soviet differences. These arise in part from Peiping's apprehensions that the USSR's detente strategy might lead to East-West agreements at the expense of Chinese interests. [REDACTED]

CUBA AND THE CENTRAL AMERICAN OUTBREAKS Page 2

Recent outbreaks in three Central American republics are symptomatic of the acute political and social unrest in Latin America which is being effectively exploited by the Castro regime. The Cuban Government regards itself as the vanguard of the "anti-imperialist revolution" that will "inevitably" sweep all Latin American. Cuban propaganda and subversion have played a part in contributing to the unrest that led to the outbreaks in El Salvador, Nicaragua, and Guatemala, but there is as yet no reliable evidence that these developments are being closely directed from Cuba. These outbreaks, however, make these countries more vulnerable to further Cuban subversion. [REDACTED]

FRANCE-ALGERIA Page 5

De Gaulle's announcement that by mid-December he will set a date for a nationwide referendum to approve his Algerian policy indicates both his intention to move decisively toward a solution and his recognition of the need for a demonstration of massive public support to counter anticipated attacks on his regime. Paris is reinforcing security forces in Algiers, where European settlers are described as bitter and "spoiling for trouble." The rebel government, however, is likely to reject any further overtures prior to the UN debate on Algeria in December. [REDACTED]

25X1

~~SECRET~~**CONFIDENTIAL**

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

PART I (continued)**SITUATION IN LAOS Page 6**

The 10 November takeover of Luang Prabang by a group of officers sympathetic to General Phoumi's Savannakhet Revolutionary Committee has seriously weakened Premier Souvanna Phouma's position and given rise to increased tension which could lead to military clashes between the groups struggling for control. Souvanna shows no sign of being ready to resign or to contribute to formation of a new government including Phoumi elements. The agreement between the Souvanna government and the Pathet Lao announced on 16 November for the dispatch of a government good-will mission to Communist China and North Vietnam and the establishment of "friendly relations" with Peiping may reflect Souvanna's lessening ability to resist pressures from the left in the face of the erosion of his support from the right. [REDACTED]

25X1

REPUBLIC OF THE CONGO Page 9

The past week brought some improvement in the position of Colonel Mobutu's interim Congolese Government with respect to pro-Lumumba elements in Leopoldville. New moves toward a political settlement, however, are in abeyance pending a UN decision in New York concerning the seating of President Kasavubu's delegation and the dispatch of the 15-nation conciliation commission to the Congo. Supporters of Lumumba continue active in Orientale Province, and are attempting to gain the allegiance of anti-Tshombe tribesmen in Katanga. [REDACTED]

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PART II**NOTES AND COMMENTS****BLOC ARMS AID TO THE ALGERIAN REBELS Page 1**

The Algerian rebels continue to assert that they have been assured of new military assistance from the bloc, particularly from Communist China. Since rebel Premier Abbas' visit to Moscow and Peiping in September, there has been increasing evidence that the rebels are expecting new deliveries of bloc arms through a third country. Although Moscow and Peiping appear reluctant to state publicly their willingness to provide further arms aid, they are likely to attempt to supply at least light weapons and possibly some "technical personnel." [REDACTED]

25X1

SECRET

11

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

PART II (continued)**USSR ANNOUNCES NEW GOLD VALUE FOR RUBLE Page 2**

The gold content of the new ruble--hitherto the only major unannounced feature of the pending general price and currency reform--was revealed by the Soviet Government on 14 November. The new ruble to be issued on 1 January 1961 will have a gold content of 0.987 gram, compared to the US dollar's 0.888 gram, and will thus theoretically have a foreign exchange value slightly higher than that of the dollar. The USSR is describing the reform as enhancing the international prestige of its currency. The revaluation will have no direct bearing on domestic prices and will have no immediate practical effect on the USSR's trade and aid programs outside the bloc.

BELGRADE MOVES TO ENHANCE ITS PRESTIGE WITH UNCOMMITTED STATES Page 3

Since President Tito's recent visit to the UN, Yugoslavia has increasingly demonstrated its independence of Soviet foreign policies. It has opposed Khrushchev's UN reorganization scheme, bloc proposals for Balkan accord, and Soviet plans for the convocation of a summit conference in the near future. Belgrade probably regards the emphasis on "neutralism" in its foreign policies--hitherto in almost complete support of Soviet initiatives--as a necessary adjunct to its efforts to increase its influence in the uncommitted countries.

TURKISH POLITICS Page 4

The elimination of the more radical members of the ruling Committee of National Union in Turkey re-emphasizes President Gursel's intention to return the government to civilian control. Col. Turkes, spokesman for the younger, more politically minded officers dismissed from the committee, will probably remain as a political figure and is likely to have the support of many of the more than 3,500 officers recently forced to retire.

MIDDLE EAST HIGHLIGHTS Page 5

In his efforts to remove any threats to his regime, Qasim has arrested a dozen or so Iraqi Communists, including two central committee members, and several nationalist army officers. Qasim's sweeping demands for revisions in Iraq's concession agreement with the Iraq Petroleum Company have led to an impasse in their negotiations. New anti-government demonstrations took place in the Sudan on the eve of Nasir's arrival on 15 November for a ten-day visit; extraordinary security precautions will continue.

SECRET

iii

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

PART II (continued)**MAURITANIA Page 6**

Mauritania obtains its formal independence on 28 November, in the face of Moroccan claims to this Saharan territory and threats of "national mobilization" to enforce them. Mauritanian Premier Ould Daddah, anticipating Moroccan-inspired subversion and military adventures such as occurred in late 1957 and early 1958, is reported to have asked for and received France's commitment to maintain present defense arrangements in Mauritania. Morocco's efforts to obtain diplomatic support within the UN seem likely to fail.

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JAPANESE ELECTION Page 8

In the Japanese general election on 20 November, Prime Minister Ikeda will be seeking both to confirm his leadership of the conservatives and to regain for the government the public support lost during the demonstrations last spring against the US-Japanese security treaty and former Prime Minister Kishi. The opposition Socialists are attempting to overcome adverse public reaction to their violent tactics last spring, and the moderate Democratic Socialists are trying to attract enough votes to survive as a political party. The Communists, with only one seat in the last Diet, are unlikely to win more than one or two additional seats.

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SOUTH VIETNAM Page 9

President Diem is under pressure to punish the instigators of the abortive coup of 10-11 November staged by paratroop elements concerned over his ineffectiveness in dealing with Communist guerrilla warfare. It remains uncertain whether he will now take the necessary steps to liberalize his regime sufficiently to rally popular support. The creation of a committee to ferret out "rebels and Communists" suggests that reprisals will be carried out against persons sympathetic to the coup. The attempted revolt apparently took the Vietnamese Communists by surprise; Communist propaganda has portrayed it as a conflict between pro-American groups.

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AFRICAN MOVES FOR ADDITIONAL SEATS IN UN BODIES Page 10

The African UN members, supported by the rest of the Afro-Asian bloc, have apparently decided on a major effort to reallocate the existing elective seats on the UN Security Council and the Economic and Social Council. This African effort to gain seats now held by other regions--notably Western Europe and Latin American--probably results from the rejection by the USSR of any attempt to increase the number of elective seats. The Africans,

SECRET

iv

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

PART II (continued)

with this end in mind, succeeded in postponing the elections scheduled for 11 November. [REDACTED]

25X1

PRO-CASTRO PARTY ELIMINATED FROM VENEZUELAN COALITION . . . Page 11

By excluding the pro-Castro Democratic Republican Union (URD) from his three-party coalition, Venezuelan President Betancourt has probably consolidated his support among moderates and in the armed forces. The URD now can be expected to ally openly with the Communists and other leftist opposition elements which provoked the antigovernment violence during late October. These groups will probably attempt to exploit Betancourt's critical economic difficulties and the widening rift in Cuban-Venezuelan relations. [REDACTED]

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DEVELOPMENTS IN BRITISH GUIANA Page 12

Recent actions by British Guiana's government leader Cheddi Jagan reflect the continued Communist orientation of the top leaders of the colony's governing People's Progressive party. In view of the continuing fragmentation of the opposition, Jagan's remains the strongest political party, and he is expected to win the August 1961 elections which will be held under the new constitution providing for full internal self-government. [REDACTED]

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ITALIAN LOCAL ELECTIONS Page 13

As a result of the local elections held throughout Italy on 6 and 7 November, the Christian Democrats in many municipalities will be under pressure to form alliances outside the pattern of the national coalition--in particular, with the Nenni Socialists. The Nenni Socialists' party directorate has hinted a willingness to form alliances with the Christian Democrats in some 150 city councils where the national coalition parties failed to win a majority. Acceptance of such an offer in any sizable number of municipalities, however, would antagonize the Liberal party and other conservative elements among Premier Fanfani's parliamentary supporters and thus risk disrupting his government. [REDACTED]

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PART III**PATTERNS AND PERSPECTIVES****THE UNITED NATIONS SECRETARIAT Page 1**

The questions of the authority of the UN secretary general and the personnel and functions of the Secretariat were brought into the foreground this fall by Khrushchev's bitter attacks on Hammarskjöld and proposals for reorganizing the Secretariat. The Soviet leaders have long been

SECRET

V

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

PART III (continued)

dissatisfied with the Secretariat's personnel setup and procedures and want more bloc nationals in key positions. The increasingly powerful Afro-Asian bloc, believing that equitable geographic distribution should be paramount in hiring UN civil servants, contends that the Western powers have too large a share in the UN administration. The Soviet bloc now holds only 84 of an assigned quota of 216 professional positions. In his efforts to correct this imbalance, Hammarskjold is hindered by a lack of qualified personnel in the bloc and underdeveloped countries and the refusal of bloc personnel to accept the lower professional positions.

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RECENT CHANGES IN SOVIET INDUSTRIAL ADMINISTRATION AND PLANNING Page 5

Changes being made in the system of industrial administration in the USSR reflect the regime's continued concern over the problem of how best to encourage much-needed local initiative while at the same time directing it toward achieving national economic and political goals. These changes, involving both organizations and planning techniques, are designed to provide some operational leeway at the local level within a system of central control.

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SOUTH KOREANS LOOK TO CHANG GOVERNMENT FOR ECONOMIC PROGRESS Page 9

The South Koreans look to Prime Minister Chang for progress under democracy, but he is faced with acute problems of inflation and corruption; the burden of supporting a 600,000-man defense establishment carries in train grave economic ills. Moreover, the country suffers from poverty of natural resources, overpopulation, and a shortage of managerial and technical skills. Following the fall of the Rhee government, North Korea has urgently propagandized the economic benefits of unification and disparaged foreign aid as incapable of bringing prosperity to South Korea.

25X1

SECRET

vi

THE WEEK IN BRIEF

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

PART I**OF IMMEDIATE INTEREST****BLOC REACTION TO US ELECTION**

The main themes conveyed in Moscow's reaction to the US election are that Senator Kennedy's victory opens the way to a new era in US-Soviet relations and that the Soviet Government will respond favorably to any new American initiatives to improve the international situation. Khrushchev lost no time in sending President-elect Kennedy a congratulatory message which set the Soviet line, since echoed by virtually all Soviet commentators, by expressing the hope that US-Soviet relations "will again follow the line along which they were developing in Franklin Roosevelt's time."

Khrushchev declared that the USSR is ready to "develop the most friendly relations between the Soviet and the American peoples, between the governments of the USSR and the United States." Although he did not call for a new summit meeting, Khrushchev reaffirmed the USSR's readiness to continue efforts to solve such a "pressing problem as disarmament, to settle the German issue through the earliest conclusion of a peace treaty, and to reach agreement on other questions whose solution could bring about the easing and improvement of the entire international situation." He added, "Any steps in this direction will always meet with the understanding and support of the Soviet Government." The Soviet press prominently published Kennedy's reply on 11 November.

Soviet propaganda sees the election results as a repudiation of the present administration's policies. Izvestia contended on 11 November that there now are real prospects for changes in US foreign policy. This commentary said the results showed that the American people want an improvement in US-Soviet relations, that Khrushchev's message to the President-elect underscores a similar Soviet desire, and that "certain circles" in countries allied to the United States favor revisions in US policy but want Washington to take the initiative.

Moscow refrained from predicting the course the new administration will follow, but the tone and text of Khrushchev's message, together with the frequent invocation of Roosevelt's name, provide Soviet readers with a generally hopeful note. Moscow radio on 12 November noted that the Soviet people "were more or less satisfied" to learn that Senator Kennedy was elected and observed that any change in US policy would be greeted by "Russians in the street as the promise of good times." Moscow recalled Soviet indignation over the U-2 incident and subsequent events and asserted that these actions made it impossible to "have any dealings with the Americans." It noted that the new administration will not be committed to "the old policy of brinkmanship."

Moscow's reaction strongly suggests that Khrushchev's present

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

intention is to reduce the post-summit level of hostility toward the West and create a favorable atmosphere for a return to high-level negotiations after the new administration is installed. Khrushchev's desire to resume negotiations takes on added significance, in view of the current discussions among world Communist leaders over Sino-Soviet differences. These arise in part from Peiping's apprehensions that the USSR's detente strategy might lead to East-West agreements at the expense of Chinese interests.

Moscow's treatment of the election further underscores Khrushchev's determination to defend and maintain his "peaceful coexistence" strategy and to reject any concessions to Chinese Communist demands which would imply even a partial repudiation of his policy toward the West over the past three years.

Bloc Reaction

Peiping agrees with Moscow that the election results sig-

nified a popular rejection of past "cold war" policies, but, unlike Moscow, the Chinese see no possibility that the new administration will bring any slackening of US "aggressive policies." Chinese propaganda immediately branded the President-elect as just another "tool of monopoly capital," and predicted that he would continue the "aggressive and reactionary" policies of the present administration while making greater use of taxation to "increase military spending and extend war preparations."

North Korea and North Vietnam have closely followed the Chinese lead. Mongolia, on the other hand, "warmly greets" Khrushchev's message to Kennedy and has endorsed Moscow's wait-and-see approach to the new administration.

East European propagandists are less reluctant than Moscow to criticize Kennedy and express doubts regarding future policy changes. Only Albania, however, seems to side fully with Peiping's uncompromising position. 25X1

CUBA AND THE CENTRAL AMERICAN OUTBREAKS

Recent outbreaks in Central America are symptomatic of the acute political and social unrest in Latin America which is being effectively exploited by the Castro regime. The Cuban Government regards itself as the vanguard of the "anti-imperialist" revolution that will

"inevitably" sweep all Latin America.

Cuban subversion ranges from intensive propaganda, supported by a Castro-subsidized world news agency having close working ties with Sino-Soviet bloc propaganda agencies, to

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****17 November 1960**

financial support tendered Communist-oriented student and labor groups by Cuban diplomatic missions. When, as in the case of the unsuccessful Cuban-backed revolution in the Dominican Republic in mid-1959, the Cuban leaders consider a country ripe for revolution, they provide covert military aid and direction to Communist or Communist-controlled revolutionary groups.

While Cuban propaganda and subversion have clearly played a part in contributing to the unrest that led to the recent outbreaks in El Salvador, Guatemala, and Nicaragua, it does not appear that these developments are being closely directed from Cuba. These outbreaks, however, increase the vulnerability of these countries to further Cuban subversion.

El Salvador

Leftists continue to entrench themselves in the government since the 26 October coup in El Salvador. The three civilians in the six-man junta and several cabinet members suspected of being Communist sympathizers have been filling government posts at all levels with suspected Communists, particularly in the ministries of labor and justice. The regime's information and propaganda network appears to have been largely taken over by this



element. Communist-front labor and political organizations are calling for a purge of the army and reportedly are planning the distribution of arms so "the people" can resist any attempt by the military to seize full control of the government.

Although Castro agents are not known to have been involved in the coup, it is clear that the cultivation of Salvadoran leftists earlier this year by the Cuban Embassy contributed to the present leftist resurgence.

25X1

SECRET

PART I

OF IMMEDIATE INTEREST

Page 3 of 10

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****17 November 1960**

25X1

Nicaragua

The rebel attacks of 11 November were stronger and bloodier than most of the numerous rebel actions against the Somoza government of Nicaragua in the past 18 months. The government declared martial law. The rebels apparently included conservatives as well as some leftists who had been in Cuba earlier this year. However, the chief of the US Army mission in Costa Rica, who was present at the Nicaraguan border area during the fighting, found no evidence that Cubans were involved or that Cuban weapons were used.

Guatemala

The revolt launched on 13 November by disaffected Guatemalan Army officers apparently took the Communists by surprise. However, by 15 November they were actively seeking to capitalize on it. Demonstrations against the government in the capital that evening, apparently organized by the Communists, were dispersed by the police, but new manifestations were promised nightly "until the government falls."

Communists are also reported infiltrating insurgent ranks and, in the city of Puerto Barrios, where Communists are relatively strong, they may be among the civilians to whom arms were distributed during the three days the city was held by insurgents. The government's position in the capital is weakened by the withdrawal of troops to fight elsewhere.

Although there is no evidence available to support government claims of direct Cuban involvement in the revolt, Cuban propaganda and subversion probably contributed to the unrest that helped prompt it. Guatemalan Government charges of a Cuban-Communist conspiracy tend to help ensure the loyalty of Guatemalan military leaders, on whom Ydigoras depends for the survival of his regime.

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Honduras

Honduras was not involved in the early November outbreaks, but the Cuban Embassy there is assiduously cultivating Communist-oriented student and labor groups, and President Villeda Morales is faced with strong leftist influence within his own Liberal party.

25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

FRANCE-ALGERIA

De Gaulle seems to be preparing, under increasing domestic and international pressures, to move decisively regarding the Algerian problem. His announcement that by mid-December he will set a date for a nationwide referendum to approve his policy indicates both his intention to offset mounting opposition and his recognition of the need for a demonstration of massive public support. Paris is reinforcing security forces in Algiers, where European settlers are described as bitter and "spoiling for trouble." The rebel government, however, is likely to reject any further overtures prior to the UN debate on Algeria in December.

present session closes 16 December. A parliamentary debate on Algeria is scheduled for 6 December. The UN will take up the problem early in December. De Gaulle must also cope with the rightists' war of nerves: extreme leader Tixier-Vignancourt has publicly announced that a "government of the French Province of Algeria" is being formed and will start functioning as soon as De Gaulle installs an "Algerian executive."

In the meantime, De Gaulle is attempting to neutralize possible fomenters of unrest. He has been calling in cabinet ministers individually, reportedly to ask them to state unequivocally whether they will back him and to resign if they disapprove.. What appear to be pulse-taking missions to the army in Algeria have been completed by Minister of Armed Forces Messmer and Chief of the National Defense Staff General Ely. 25X1

The army has reportedly been most concerned over indications that De Gaulle might declare a unilateral cease-fire--an action he hinted at on 4 November--at least in selected areas. De Gaulle's efforts to calm army fears are further complicated by the attitude of France's ranking soldier, Marshal Juin, who has publicly dissociated himself from De Gaulle's Algerian policy following the 4 November speech. Support for Juin has been publicly expressed by retired Generals Salan and Guillaume.

Time limitations call for adroitness. The constitution requires that a referendum be formally proposed by the government or parliament and authorized by the President while parliament is in session; the

The government's continuing reinforcement of security police in Algiers and a few

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

other centers, together with the sudden expulsion of several extreme rightists, suggests that Paris may be planning some move which the settlers can be expected to meet with violence. The European community is reported to be "bitter and depressed." Some journalists now add it "seems full of insurrectionary ginger and spoiling for trouble" with or without backing from sympathetic army and metropolitan rightist elements. However, the major settler organization, the French Algerian Front (FAF), has urged its followers to "clench fists and wait"; it took no part in the Armistice Day rioting by young toughs in Algiers over De Gaulle's 4 November address.

The Provisional Algerian Government (PGAR), whose plenary session in Tunis ended on 10 November, has rejected the proposals made in De Gaulle's speech. The rebel minister of information has told the American Embassy in Tunis that although the speech was "intelligent," it was not specific on the guarantees

concerning the implementation of self-determination. The PGAR, he said, has lost confidence in bilateral negotiations, and requires UN supervision of any settlement. It now appears virtually certain that the PGAR will reject any French overtures, at least until after the UN General Assembly takes a stand.

Current efforts by French Community states to mediate are not likely to be successful. De Gaulle received Presidents Senghor of Senegal, Houphouet-Boigny of the Ivory Coast, and Youlou of the Congo Republic cordially, but these emissaries reportedly made no specific proposals.

Another Community delegation headed by Senegalese Premier Dia met in Tunis on 16 November with rebel premier Ferhat Abbas and several "ministers" of the PGAR. However, a rebel spokesman had previously indicated that this group would be received for "fraternal discussion," but not for mediation, which he described as "dangerous."

SITUATION IN LAOS

The takeover on 10 November of the royal capital of Luang Prabang by a group of officers sympathetic to General Phoumi's Savannakhet Revolutionary Committee has seriously weakened Premier Souvanna Phouma's position and given rise to increased tension which could lead to military clashes between the groups struggling for control of Laos. The officers, led by Third Infantry Battalion commander Major Bountheng, took advantage of

the absence from Luang Prabang of Armed Forces Commander General Ouane and First Military Region Commander Col. Houmany to stage their coup. With the subsequent capitulation to the Phoumi group of both Ouane and Houmany, the First Military Region now appears to be fairly solidly in the Phoumi camp.

This development reduces Souvanna's military backing to essentially the Fifth Military

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

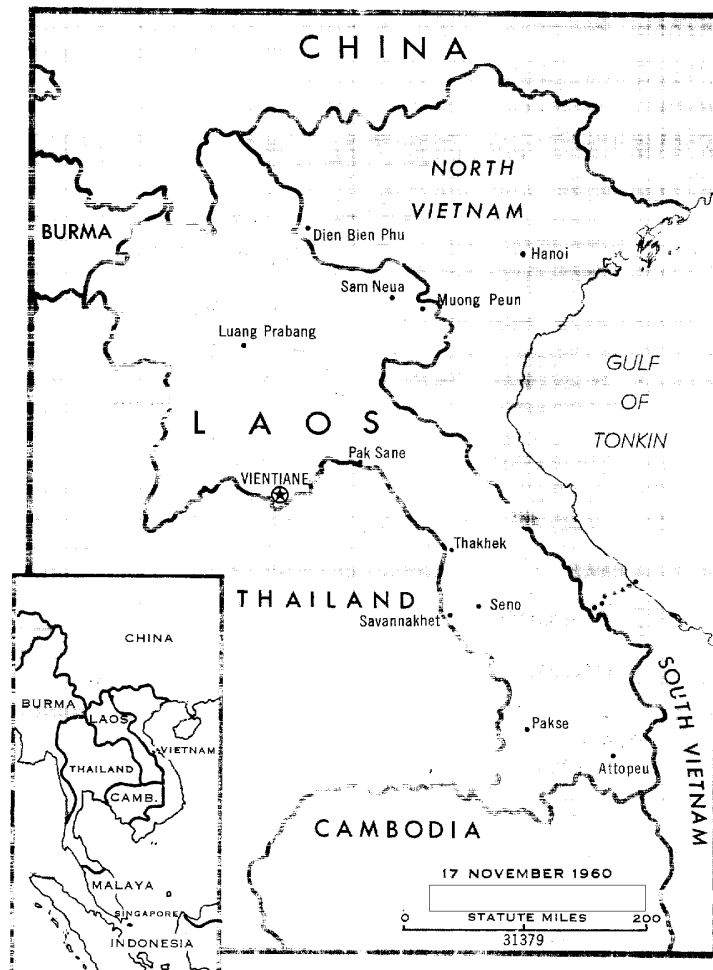
Region, with headquarters in Vientiane. Even this command is badly split over such issues as whether to collaborate with the Communist-dominated Pathet Lao in measures against Phoumi and the degree of support to give Souvanna in his efforts to hang on. The key to the situation in Vientiane is probably Col. Kouprasith, the Fifth Military Region commander, who has given some indication that he might move to secure the city against the Pathet Lao and those paratroop and other elements still responsive to Captain Kong Le. Whether he has the temerity to undertake such action or the military power to be successful is questionable, however.

Despite the Luang Prabang reverse, Souvanna shows no sign as yet of being prepared to give in by resigning or lending himself to maneuvers for a new government of national union which would include the Phoumi group. He has announced that his government will no longer recognize as valid the acts of the King on the ground that he is the captive of the Phoumi forces. He has also warned that his forces will attempt to retake Luang Prabang so as "to free the King."

Although staff officers in Vientiane are alleged to be engaged in preliminary planning for such a venture, Souvanna's

threat probably does not have much substance, inasmuch as he lacks the forces to attack Luang Prabang and at the same time maintain the security of Vientiane against either the Pathet Lao or Phoumi's forces.

Numerous rumors of impending military action are current in Vientiane as the result of the Luang Prabang coup. Reports of an imminent attack on Vientiane by Phoumi can probably be discounted and may have been deliberately circulated by Savannakhet in order to tie down



25X1

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

Vientiane forces and thus help to prevent any attempt to liberate Luang Prabang. There is some indication that the Second Paratroop Battalion and associated Vientiane and Pathet Lao forces may resume their offensive against Phoumi elements on the road between Pak Sane and Thakhek. The American Embassy in Vientiane is concerned over yet another possibility: that the Pathet Lao, which is reported in some strength in Vientiane Province, will move to take over control of the capital.

Former Premier Phoui Sananikone has held several talks with King Savang in Luang Prabang on ways to break the political logjam and permit formation of a new government to replace the narrowly based Souvanna government. Phoui has indicated two possible approaches to the problem. One would involve a summons by the King to Souvanna, Phoumi, and Phoui to come to Luang Prabang to work out a new government. Under this formula, Phoui would retain Souvanna temporarily but would strengthen his government by taking over the Interior Ministry himself and allotting the Defense Ministry to Phoumi.

An alternative approach suggested to Phoui would be to stimulate an assembly no-confidence vote against Souvanna. The King indicated to Phoui that he had little hope that further talks with Souvanna would be productive, but on the other hand made it clear that he would not step in to resolve the crisis until Souvanna had been removed by other means.

General Phoumi went to Luang Prabang on 14 November and tried to persuade the King to approve a new government

based on the Savannakhet group. The King refused to sanction this move, claiming he could only act within the limits of the constitution. The political



PHOUI

impasse thus continues, with Souvanna refusing to step down, with Phoumi clearly holding out for a rightist government he can dominate, and with Phoui jockeying for some middle-of-the-road solution in which he would stand a good chance of returning to power.

Vientiane radio announced on 16 November that agreement has been reached between the Souvanna government and the Pathet Lao on the dispatch of a government good-will mission to Communist China and North Vietnam, the establishment of postal relations with North Vietnam, and the establishment of "friendly relations" with Communist China. Souvanna had previously insisted that relations with Peiping must await Communist China's admission to the United Nations; his apparent agreement to drop this condition may reflect his lessening ability to resist pressure from the left in the face of the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****17 November 1960**

erosion of his support from the right.

There is some possibility, however, that he has deliberately advanced the timetable in

implementing his concept of neutrality as a means of eliciting bloc diplomatic and propaganda support in his struggle to stay in power.

25X1

REPUBLIC OF THE CONGO

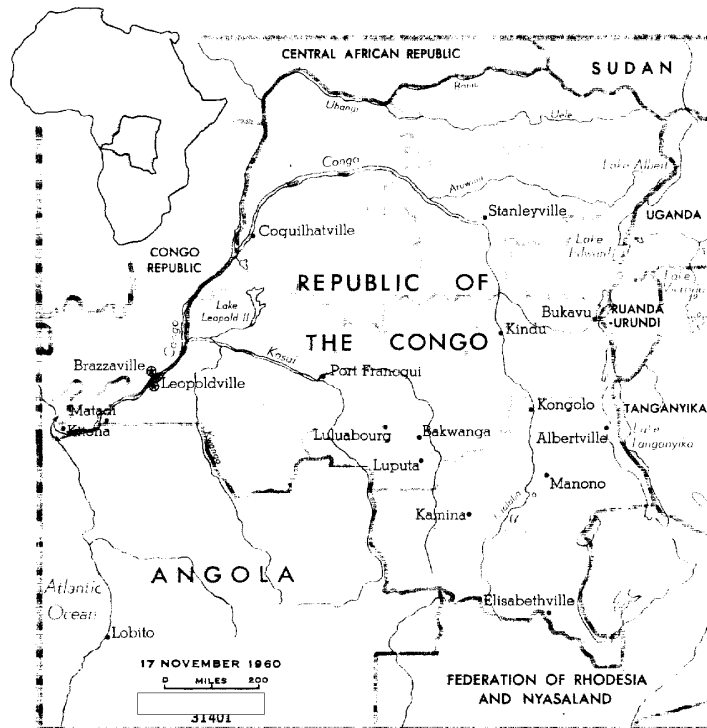
The past week brought some improvement in the position of Congolese Army chief Mobutu's interim government with respect to pro-Lumumba elements in Leopoldville. New moves toward a political settlement, however, are in abeyance pending a UN decision in New York concerning the seating of President Kasavubu's delegation and the dispatch of the 15-nation conciliation commission to the Congo.

tal. Although this incident reflects Mobutu's vacillation, there are indications that he has lately consolidated his control over the army.

The loyalty of the army remains ephemeral, but this group is unlikely to turn against Mobutu as long as he is able to obtain money from the government to meet payroll and other requirements. UN officials have expressed apprehension at the

The departure for New York of senior UN representative Dayal on 3 November appears to have led to a thaw in relations between Mobutu and the UN Command. In contrast to Dayal, who made no effort to disguise his dislike for Mobutu, acting UN chief Rikhye appears to have succeeded in maintaining correct relations with all major political factions.

The UN Command secured the release of the pro-Lumumba president of Leopoldville Province on 13 November, three days after his arrest by Mobutu in a dispute over security responsibilities in the capi-



25X1

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

army's fiscal practices, which have included the reissue of worn bank notes retired from circulation and the use of threats to force local banks to issue drafts to meet its needs.

Lumumba, although still under house arrest, has urged in a letter to the President of the UN General Assembly that a referendum be held in the Congo concerning the adoption of "presidential" government, with such a referendum to be followed by the direct election of a president. Lumumba's proposal suggests that he regards his status as the Congo's best known politician as his principal political asset. Although he is rumored to be purchasing the loyalty of various Congo legislators, the Chamber of

Deputies is regarded at present as almost evenly divided between pro- and anti-Lumumba elements.

In Katanga, President Tshombé continues threatened by tribal warfare in the northern part of his domain, and has lately been criticized within his government for his policies.

Pro-Lumumba elements continue active in Orientale Province and have attempted to capitalize on Tshombé's difficulties by securing the allegiance of the dissident Baluba tribesmen in Katanga. In late October, in an effort to split Tshombé's political domain, Baluba spokesmen in Orientale Province announced the creation of a "Baluba Province" in northern Katanga.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

PART II**NOTES AND COMMENTS****BLOC ARMS AID TO THE ALGERIAN REBELS**

Since the visit to Moscow and Peiping in September by Ferhat Abbas, premier of the Algerian rebel government, there has been increasing evidence that the rebels are expecting new deliveries of bloc arms. An announcement by Tunisian President Bourguiba and semiofficial leaks in Morocco and the UAR during recent weeks reveal the intention of those governments to allow transshipments through their territories. However, because of improved French security, including electrified barriers along both the Eastern and Western frontiers, it would be extremely difficult to smuggle the arms into Algeria. Abbas said that, although the rebels want arms, they have no need for volunteers.

The bloc is likely to supply at least small quantities of light arms and ammunition and possibly some "technical personnel," and Moscow is also expected to give strong diplomatic and propaganda support to the rebels' proposal for a UN-supervised referendum in Algeria. Iraqi Premier Qasim earlier this month publicly thanked the Peiping government for the \$12,000,000 in aid it has thus far given the FLN and claimed such assistance was continuing.

Soviet Foreign Minister Gromyko, in a talk with French Ambassador Dejean on 5 November, maintained that France, rather than the USSR, has shifted its policy on Algeria. Gromyko repeated Khrushchev's observation in New York that the USSR, in extending de facto recognition to the rebel regime, had only gone as far as De Gaulle on the question of recognizing the provisional Algerian government. Soviet assurances of this type appear primarily designed to mollify the French and to avoid provoking an open break with Paris while retaining for the USSR a free hand to aid the rebels.

The Soviet Union, in collusion with Czechoslovakia, is believed to have supplied sizable amounts of arms to the FLN in 1957 and 1958. The weapons--largely World War II models of Czech origin--apparently were purchased by Egypt and Syria and then transshipped to the rebels via Libya and Tunisia through supply channels maintained by Cairo. The total amount of this aid is unknown. 25X1

The first Chinese offers were made in late 1958 and early 1959, but it is not known whether all the aid promised reached the rebels. An Algerian rebel mission visiting China in April 1960 presumably discussed new shipments of arms.

Czechoslovakia has on occasion dealt directly with the

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

rebels. Rebel delegations have discussed relatively small purchases of arms in Prague, and Czech representatives have met with FLN members in Morocco

to negotiate arms sales. Some Czech shipments of arms have been intercepted en route to Morocco by the French, the most recent in April 1959.

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USSR ANNOUNCES NEW GOLD VALUE FOR RUBLE

The gold content of the ruble--hitherto the only major unannounced feature of the general price and currency reform planned for 1 January 1961--was revealed by the Soviet Government early this week. The new ruble, to be issued on that date, will theoretically have a foreign exchange value of slightly more than one US dollar.

The new, "heavy" ruble is to be assigned a gold content of 0.987 gram. This contrasts with the present ruble gold content of 0.222 gram and the US dollar gold content of 0.888; thus, on the basis of gold parities, one new ruble will be the equivalent of \$1.11.

On 1 January 1961 prices and wages within the USSR are to be cut to one tenth of their present levels and rubles exchanged at the rate of ten old for one new, thus maintaining the same relative domestic price structure and the same relative consumer purchasing power.

The assignment of a higher gold content for the ruble has no direct bearing on domestic prices, which for the most part are politically determined. However, by raising the official value of the ruble to nearly five times the present level in comparison to the dollar but at the same time increasing the internal

value to ten times its present level, the regime will establish a more realistic average ruble-dollar ratio which in effect depreciates the ruble in terms of Western currencies. The artificiality of the present official exchange rate (4 to 1) has been implied by the existing ratio of ten rubles to one dollar for tourists. As of 1 January, the separate tourist rate will be eliminated, and tourist travel to the USSR will thus become somewhat more expensive.

The USSR is describing the reform as enhancing the international prestige of its currency. The gold content assigned to the ruble indicates that the USSR will try to gain whatever propaganda advantage it can from issuing a currency with a greater unit value than that of the US dollar. There will be, however, no immediate practical effect on the USSR's trade and aid programs outside the Soviet bloc, which will be simply recomputed on the basis of the new gold valuation.

The new, more realistic measure of the relative purchasing power of the ruble in terms of the dollar and other Western currencies may lead the European satellites to revalue their own currencies accordingly, as part of a long-term effort to create a foreign trade pattern which makes an optimum contribution to economic growth.

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SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

BELGRADE MOVES TO ENHANCE ITS PRESTIGE WITH UNCOMMITTED STATES

Since President Tito's recent visit to the UN, Yugoslavia has increasingly demonstrated its independence of Soviet foreign policies, apparently to benefit its relations with the uncommitted states. For the two years prior to the UN session, Belgrade has described almost every Soviet initiative in international affairs as likely to ease world tensions.

Yugoslavia's new tactic is probably intended in part to counter any impression gained from Khrushchev's remarks in New York that Belgrade slavishly adheres to Soviet policies. In his homecoming speech at Belgrade on 12 October, Tito specifically denied that Yugoslavia was "riding the tail" of the USSR and voiced his opposition to Khrushchev's plan to reorganize the UN. While Tito was en route home from New York, Vice President Kardelj in effect backed away a step further from support for bloc schemes for a Balkan accord by linking them with broader international problems. On 29 October, Tito expressed his opposition to any summit conference in the near future, even with neutralist participation.

Although Yugoslavia still supports Moscow on certain important issues, such as colonialism and disarmament, the USSR has been annoyed by the dissipation of over-all Yugoslav support. In mid-October, Moscow publicly attacked Belgrade for not voting with the bloc in the UN on a procedural resolution concerning disarmament. Soviet diplomats in Belgrade have also privately expressed disappointment at Tito's failure to support Khrushchev's UN reorganization scheme.

Tito's meetings with Khrushchev in New York apparent-

ly, strengthened Tito's determination to adhere to an uncommitted course. Khrushchev probably intended to use Tito to enlist neutral support for the bloc's maneuvers, but a Yugoslav official reported that the meeting was "not as friendly and agreeable" as Khrushchev later indicated, and that Khrushchev viewed Tito as a competitor for the uncommitted countries. Tito apparently refused to collaborate with Khrushchev, realizing that the Soviet leader, mindful of the Sino-Soviet dispute, would be loath to make any meaningful concessions to Yugoslav views or interests.

Probably the greatest single factor responsible for Yugoslavia's new emphasis on "neutrality" was Tito's extensive collaboration in New York with the leaders of uncommitted countries. Tito regarded the combined efforts of the neutralists to "ease international tensions" as the one bright spot in a generally depressing UN session. Although he denied on 29 October that the uncommitted countries would form a third bloc, he claimed that "there is a new force in the world...which has more united views on international problems" than either the Western or Eastern alliances. A guide to future Yugoslav intentions is Tito's urging that uncommitted states confer more often, cooperate more closely, and act in concert more frequently.

The West remains the chief villain in Yugoslav propaganda, but to a lesser degree than in the past. The West was accused of being the major precipitator of tension at the General Assembly session. The USSR shared the blame, however, and the Belgrade press gave its readers a reasonably clear picture of Khrushchev's excesses.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

TURKISH POLITICS

The reorganization of the ruling Committee of National Union (CNU) in Turkey to eliminate the more extremist members emphasizes the new political alignments being formed, as well as the problems the CNU faces in providing a transition to civilian government.

President Gursel's dismissal of 14 CNU members was the culmination of several weeks of growing dissent within the committee. The officers dismissed have been proponents of prolonged military control of the government and a wider range of reform activities. At least some of them favored a more neutral foreign policy and perhaps an eventual rapprochement with the USSR.

The most prominent is Col. Alpaslan Turkes, spokesman for the younger, more politically minded officers in the CNU. He apparently had arranged to have his followers appointed to posts in the Istanbul police department; all of them now have been removed. Although press reports indicate that Turkes and his followers are being scattered among Turkish diplomatic missions abroad, he will probably remain as a political figure, and is likely to have the support of some of the 3,500-4,000 officers who were retired earlier.

Gursel, in announcing the dismissals, repeated his pledge to hold elections in October 1961 and announced that a constituent assembly would be formed shortly to function as a lower house until the elections, with the CNU acting as a senate. The reorganization is generally seen also as improving relations between the CNU and the former opposition Republican Peoples party (RPP).

The suppression of the former ruling Democratic party (DP), however, has created a vacuum in the Turkish political structure that cannot adequately be filled by either the RPP or the Republican Peoples Nation party (RPNP). The DP during its few years in power drew a wide following, especially in the provinces. Although now leaderless, the DP organization still provides the backbone of a potentially powerful party.

There is considerable sentiment in political circles to allow the party rank and file to reorganize under another name in order to avoid the formation of splinter parties--a situation which could lead to political stagnation under the system of proportional representation proposed for the next election. Failing this, however, many former DP members would probably be attracted to any new party that promised effective opposition to the RPP.

Another complicating factor is the ambition of Kasim Gulek, once secretary general of the RPP, who is bitterly opposing the party's long-time leader, Ismet Inonu. Any move by Gulek to unseat Inonu could split the RPP and add to the confusion in the elections. Turkes probably would consider joining forces with Gulek if the latter controlled the RPP. Turkes' strong dislike for Inonu, however, would rule out any collaboration with the RPP as long as Inonu is in charge.

Although the military committee at present is committed to return the government to civilian control, it may feel forced to extend its tenure if the political alignments become too chaotic to assure a stable civilian government.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

MIDDLE EAST HIGHLIGHTS**Iraq**

Iraqi Communists have suffered additional blows following the harsh repression of the Communist-inspired demonstrations of 5-7 November. Apparently in reaction to criticism of the government in the Communist press, the Qasim regime has jailed 11 prominent Communists, including one central committee member. Included in the roundup were publishers and editors of four Communist-line papers, two judges of the infamous "People's Court," and several lawyers. Several other Communists have been placed under house arrest, including another central committee member, Abd al-Qadir Ismail al-Bustani.

A cabinet shake-up on 15 November has resulted in a further Communist loss of face; pro-Communist Naziha Dulaymi, some time ago demoted to the position of minister of state, now has been ousted entirely. Additions to the cabinet appear to be civilian technicians--possibly a further sign that many nationalist political leaders are unwilling to associate themselves with a regime they regard as slipping.

Qasim's policy still appears to be to strike out at any group which might threaten his position as "sole leader." While moving against the Communists last week, his regime also arrested a number of nationalist army officers. Fourteen other nationalist officers were retired on 8 November.

Protracted negotiations between the Iraqi Government and the Western-owned Iraq Petroleum Company (IPC) have reached an impasse. Earlier this month the company reluctantly agreed to meet Qasim's harsh terms for surrendering much of its concession area. Qasim, however, now has sharply increased his demands, and the IPC doubts the government is interested in any agreement.

Qasim may even go so far as to try to secure his terms by legislation, including "nationalizing" more than 90 percent of the company's present concession area. He has led the Iraqi public to believe that the IPC would soon have to accede to the government's position. In a speech on 12 November, Qasim declared that he had entered into "violent" negotiations with the company and would announce the results in a few days' time, along with his plans for future demands.

Sudan

Extraordinary security precautions are in effect in Khartoum and other parts of the Sudan where UAR President Nasir is to go during his 15-25 November state visit. The Abboud military regime is trying to prevent new demonstrations by strong political opposition groups, as well as to protect Nasir against a possible assassination attempt, either by disgruntled Sudanese nationals or by agents slipped in from other Arab states.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****17 November 1960**

Public manifestations of opposition to the military regime have occurred sporadically for more than three weeks. Sizeable demonstrations took place in Khartoum and other Sudanese towns the day before Nasir arrived. Led by Sudanese students, these latest displays of opposition apparently had the support of the Sudanese Communist party as well as the larger Umma and National Unionist parties.

In the field of foreign relations, the Abboud government, for the first time in its two years of rule, appears receptive to offers of aid from the Sino-Soviet bloc countries. A Soviet gift of five armored personnel carriers has already been delivered; the regime is expected to

display them in the 17 November anniversary parade.

Sudanese officials, despite a comprehensive US program to assist the Sudan in radio communications, have accepted in principle a Chinese Communist offer of two 50-kilowatt, short-wave radio transmitters. The Chinese have demonstrated a capability to furnish effective aid in this field.

Private Sudanese buyers are negotiating with a Soviet mission for the purchase, on government account, of 100,000 tons of wheat. This, however, is within the framework of the Soviet-Sudanese trade agreement.

MAURITANIA

Morocco's attempt to find support within the United Nations for its claims to Mauritania, the French West African republic which formally celebrates its independence on 28 November, appears doomed to failure. Even the last-ditch effort of dispatching four high-level diplomatic teams to world capitals seems futile. While most Arab League members back Morocco halfheartedly, Tunisia and the newly independent African states will recognize Mauritanian independence and probably will support Mauritania's application for UN membership.

The Islamic Republic of Mauritania will be the last of

11 French-administered African territories to achieve independence within the French Community this year. Some 600,000 persons --500,000 of whom are nomadic Maures ethnically kin to the tribes of southern Morocco--populate the new state's 418,000 square miles of Sahara Desert. The government of Premier Mokhtar Ould Daddah at present is largely dependent on French financial subsidies, but hopes to be able to balance its budget by 1964, when completion of railway and port facilities will enable the area to begin exporting iron and other mineral ores.

Some Mauritanian officials dream of as-yet-undiscovered

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

subsoil riches in such vast quantities that Mauritania will become a new Kuwait. Dissatisfaction with the Ould Daddah regime seems to be centered in the northern, Moroccan-oriented area, where rich iron ore deposits are located, while Senegal and Mali provide other poles of economic and ethnic attraction.

Immediately after Morocco achieved independence in March 1956, right-wing nationalist leader Allal el-Fassi began a largely one-man campaign to reincorporate into Morocco Saharan areas including western Algeria, Spanish Sahara, Ifni, and Mauritania. The King assumed leadership of this effort early in 1958 when he declared recovery of Mauritania a national policy objective. The issue has since proved useful as a means of diverting popular attention from more critical local Moroccan problems, but finds little support among the leftist opposition.

In 1957 a group of 254 Mauritanian leaders formally pledged loyalty to King Mohamed V. Some of them now occupy prominent Moroccan diplomatic and governmental posts. This group of emigrés maintains contact with political groups in Mauritania, particularly the recently suppressed pro-Moroccan Nahda party, whose strength is centered in the important trading oasis of Atar.

Moroccan leaders have hinted that if Rabat does not obtain



satisfaction at the UN it will resort to more drastic action and will retaliate against governments which fail to support Morocco. Allal el-Fassi on 1 November threatened war, and on 3 November the King declared that Morocco had "entered into a phase of national mobilization for the return of Mauritania to its country of origin."

Anticipating Moroccan-inspired subversion and military adventures--such as occurred in late 1957 and early 1958--Premier Ould Daddah is reported to have asked and received France's commitment to maintain its present defense arrangements in Mauritania after independence. The Mauritanian Government has implicitly accused Morocco of assassinating the mayor of Atar on 8 November and anticipates other incidents of terrorism and sabotage.

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

JAPANESE ELECTION

In the Japanese general election on 20 November, Prime Minister Hayato Ikeda will be seeking a popular mandate for his conservative government to end the chaotic period marked by the ratification of the US-Japanese security treaty and the violent fall of the Kishi government last spring. At stake are all 467 seats in the House of Representatives, the lower and more powerful chamber of the Diet. Leaders of the ruling Liberal-Democratic party (LDP) hope to halt the gradual decline in conservative representation since 1952 by winning about 300 seats. A decline below the present level of 283 seats would dim Ikeda's prospects for long tenure as prime minister.

An LDP victory would probably be interpreted as a vote for Ikeda's program of continued prosperity and economic growth, improved welfare benefits, and tax reductions rather than as overwhelming popular support for continuation of Japan's alliance with the United States. Ikeda, pressed by the Japanese Socialist party (JSP) after the mid-October assassination of its chairman, Inejiro Asanuma, into making neutralism rather than domestic economic issues the major subject of campaign debate, has forthrightly explained and defended Japan's dependence on the United States for defense and on the non-Communist world for trade.

He has rejected the "idealistic neutralism" of the Socialists as an "idle dream" leading to a disruption of the balance of power in the Far East which would be contrary to Japan's national interest. However, local questions and personalities and domestic eco-

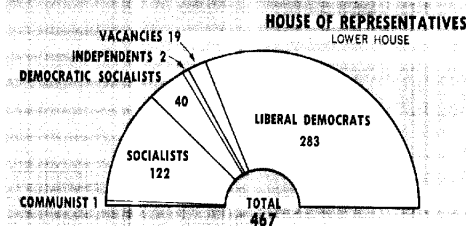
nomics issues are expected to be more decisive factors in influencing voters than foreign policy.

Almost as important as an LDP victory for the future stability of the government and for Ikeda's tenure is the competition among factions within the LDP itself. A substantial increase in conservative representation will enhance Ikeda's prestige and discourage dissident faction leaders from attacking the prime minister and his program. However, faction leaders are attempting in the election to increase the size of their Diet following for the eventual struggle to succeed Ikeda as party president and prime minister.

Even if Ikeda emerges from the election with the strongest single faction, he will have to form an alliance with other faction leaders to control the LDP and the Diet. Observers see three party leaders emerging as major contenders to succeed

PARTY STRENGTHS IN THE JAPANESE DIET

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Ikeda--Kishi's brother, former Finance Minister Eisaku Sato, who now is probably the leading contender; Takeo Miki, state minister for economic planning in the second Kishi cabinet, who represents the "liberal" wing of the party; and former Foreign Minister Aichihiro Fujiyama, a new major contender.

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

An important underlying issue may be the public's reaction to the JSP's reliance on mass tactics of violence last spring, although the influence of this will be difficult to determine unless there is a major increase in the conservative vote. The ability of the moderate Democratic Socialist party to maintain its present Diet strength may determine whether

it can continue as a separate political party. The Communists, with only one seat in the last Diet, are concentrating their efforts in campaigning for five seats representing districts where they have run well in the past, but Japanese commentators consider it unlikely that the Communists will win more than one or two additional seats.

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SOUTH VIETNAM

South Vietnamese President Diem continues to face serious political problems following suppression of the 10-11 November coup attempt by paratroop elements. He may feel an increased need to reorganize and liberalize his government, possibly with some urging from loyal military officers who came to his rescue. These officers undoubtedly share the concern of the coup leaders over the spread of Communist guerrilla warfare and the adverse effect of Diem's harsh political, social, and economic measures on popular resistance to the Communists.

An official spokesman has announced that government changes will be made. There remains, however, considerable uncertainty over Diem's willingness to carry out sweeping reforms or to relax his authoritarian rule, which now operates through a clique of family and political favorites in the pervasive Can Lao organization.

Diem is reported under pressure from the latter group to punish the coup instigators severely and to crush all known and potential political opponents. The formation of a "People's

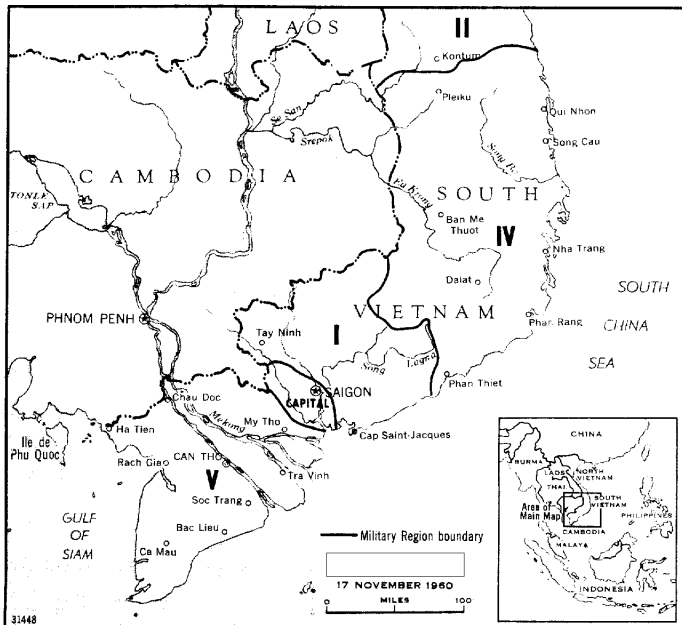
Committee Against Rebels and Communists" to ferret out traitorous elements, together with reports of civilian arrests and the temporary suspension of newspapers which printed rebel communiqués, may foreshadow a campaign of repression which could lead to further unrest in Saigon. No retribution is planned against the paratroop ranks, which are considered by Diem to have been "duped"; the responsible paratroop leaders have sought asylum in Cambodia, and this may bring about a flare-up in South Vietnam's already strained relations with its neutralist neighbor.

Most of the loyal units sent to Saigon from the First, Fourth, and Fifth Military Regions have returned to antiguerilla operations. There has been no significant Vietnamese Communist exploitation of the coup incident, either in Saigon or in areas of guerrilla concentration from which troops were diverted. Although the Communist regime in North Vietnam has been urging stepped-up guerrilla terrorism in the South, the attempted revolt apparently took the Communists by surprise. The revolt, however, will encourage Hanoi in its assessment

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960



Communist bloc propaganda attributes failure of the coup to the insurgents' inability to "win support of the people" and to exploit the "tremendous dissatisfaction" with Diem. North Vietnam has depicted the coup as merely a conflict between pro-US groups; Moscow has charged that Diem was saved by "active US intervention," but suggests that during the initial stages, American officials hoped to use the insurgents to force Diem to liberalize his government. In portraying the coup as pro-US, the Communists may hope to play on President Diem's suspicions and reservations about US attitudes.

that unsettled conditions in South Vietnam are favorable to its strategy of eventually toppling Diem through a combination of guerrilla terrorism and political support to anti-Diem elements.

AFRICAN MOVES FOR ADDITIONAL SEATS IN UN BODIES

The African UN members, supported by the rest of the Afro-Asian bloc, have apparently decided on a major effort to reallocate the elective seats on the UN Security Council and the Economic and Social Council so as to permit election of one of their number.

Resolutions to enlarge these bodies now are before the Special Political Committee, and the Africans will probably seek amendments reallocating the seats until such time as the membership of the two councils can be increased. Since it is unlikely that these amendments will get the necessary two-

thirds majority in the assembly, the Africans will then support their own candidates for the elective seats despite the general practice of supporting the candidates informally designated by their respective regions. It is for this reason that the Africans engineered the postponement of the elections, which had been scheduled for 11 November.

The consensus of assembly discussions over the years has clearly favored increasing the elective membership of the two UN councils. Adamant Soviet opposition to any enlargement until Peiping is given China's UN seat has, however, prevented

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

any definitive action during the past four sessions. During the current discussions in the assembly's Special Political Committee, the USSR's opposition led to another impasse and resulted in the African move for reallocation.

The present regional assignment of the six elective seats on the Security Council reflect the power distribution in the UN as it was in 1945. One seat each is, by "gentlemen's agreement," assigned to the Middle East, Western Europe, Eastern Europe, and the Commonwealth; two are assigned to Latin America. Elections are held for three vacancies each year for a two-year term.

Portugal is the Western European candidate this year, Chile the Latin American, and the UAR the Middle Eastern. Portugal is already in serious trouble because of strong Afro-Asian objections to Lisbon's colonial policies. The Latin American seat is also a target because the area is already represented on the council. The UAR's candidacy seems to be the only assured one at this time.

The 18-member Economic and Social Council (ECOSOC) has 13 elective seats, since by tradition the five permanent members of the Security Council are re-elected to ECOSOC when their three-year terms expire. The elective seats are presently distributed as follows: four to Latin America, one to the Commonwealth, three to Western Europe, two to Eastern Europe, and three to the Afro-Asian area. Six seats are up for election this year: France's and China's "permanent" seats, two Latin American seats, and one each for Western Europe and the Afro-Asian area.

The African drive for reallocated seats jeopardizes Taipei's chances for re-election because of the Chiang regime's tenuous position in the UN. Belgium, the Western European candidate, may lose votes because of its recent actions in the Congo and the widespread anticolonial feeling. The Latin American seats are vulnerable because there are two of them up for election.

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PRO-CASTRO PARTY ELIMINATED FROM VENEZUELAN COALITION

By excluding the pro-Castro Democratic Republican Union (URD) from his three-party coalition, Venezuelan President Betancourt has probably consolidated his support among moderates and in the armed forces. The URD now can be expected to ally openly with the Communists and the leftist opposition which provoked the antigovernment violence of 19-28 October--the major test of Betancourt's stability thus far. The breakup of the coalition, which had

ruled since Betancourt's inauguration in February 1959, was foreshadowed by the URD's criticism of the regime and demands for its leftist reorientation following the recent unrest. Top URD leaders even seemed to condone expressions of discontent.

The new cabinet to be appointed shortly will be composed of representatives of Betancourt's Democratic Action party, the moderate Christian Democratic COPEI, and independents. With

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

the cooperation of COPEI, Betancourt will retain control of the Congress and be freed from the pressures of the ultranationalistic URD on his moderate leftist policies. Although the new government may face increased subversive activity and political obstructionism, its programs presumably can be more clearly and decisively defined, a factor which could serve to restore the confidence of businessmen and the public in its stability and intentions.

The reinforced political opposition can be expected to concentrate its attacks on the government's serious economic difficulties. These include depressed business conditions, an unbalanced budget, ineffective implementation of social reforms, high unemployment, and a long-range decline of foreign exchange reserves which forced the imposition of exchange controls on 8 November and could lead shortly to a devaluation of the bolivar, the nation's monetary unit.

The opposition, which has maintained close liaison with Havana [redacted]

may also attempt to exploit the widening rift in Venezuela's relations with the regime of Fidel Castro, who apparently still holds considerable appeal

for Venezuela's influential radical groups.

The pro-Castro elements suffered a setback, however, from a massive progovernment

**BETANCOURT**

rally of an estimated 125,000 to 150,000 people in Caracas on 1 November, at which the crowd jeered references to the Cuban Government and its leaders and once called for the "firing squad" for Castro. Moreover, recent sharp attacks on Betancourt by the controlled Cuban press and radio, in which he has been variously styled as "a lackey," "a cheap politician," and "a stupid fool," may prove counterproductive for the promoters of the Castro cause in Venezuela. [redacted]

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DEVELOPMENTS IN BRITISH GUIANA

Recent actions by British Guiana's government leader Cheddi Jagan and his wife Janet reflect the continued Communist orientation of the colony's governing People's Progressive party (PPP). In view of the continued fragmentation of

opposition groups, the PPP is expected to win the August 1961 election--the first under the new constitution providing for full internal self-government.

Both Jagans have visited Cuba in recent months. In August

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

Cheddi Jagan received a Cuban offer of a \$5,000,000 loan at 2-percent interest for development of timber resources, plus an additional sum for future hydroelectric development. Cheddi Jagan now is in the US on a private trip seeking funds both for his party and the Guianese economy and may revisit Cuba on his way home. The PPP has maintained contacts by visits and correspondence with foreign Communist parties, and East Germany is providing six technical scholarships for Guianese students.

As minister of trade and industry, Jagan is seeking foreign experts, including Communists, for the civil service; he would like to increase Soviet bloc trade and has threatened repeatedly to seek a Soviet development loan if unsatisfied with Western financial offers. While publicly disclaiming the Communist label, the PPP's weekly newspaper follows a standard Communist line.

Local concern over Communism has increased, but has not yet coalesced into an effective opposition movement. The PPP remains the strongest political party but faces a serious potential threat in indications that its principal financial backers, the East Indian businessmen, now may support a new "third

force" in the process of formation because of dissatisfaction with Jagan's equivocal position on business.

The British, knowing that only the top PPP leaders are Communists, are not greatly concerned and are prepared to proceed with their plan for removing their control after August 1961 except for defense, foreign affairs, and possibly the police. Full independence would be constitutionally possible as early as the end of 1962. London, nevertheless, views Jagan as a "woolly-minded Marxist idealist" naively taken in by the Castro line, and is concerned that, with greater authority after August 1961, he might facilitate Castro's efforts for Communist intrusion into Latin America.

The British are, however, not exercising their constitutional powers to require Jagan to refuse the Cuban loan; they are skeptical that it will ever be implemented because of technical difficulties. They prefer not to antagonize him and to rely on the influence of the governor to ensure reasonably good government. Jagan, in an effort to ensure funds for economic development and the grant of wider constitutional powers, has maintained cooperative relationships with both American and British officials.

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ITALIAN LOCAL ELECTIONS

The local elections held throughout Italy on 6 and 7 November gave a slim vote of confidence to Premier Fanfani's Christian Democratic (CD) minority government and its four center party supporters. The Christian Democrats, however,

now are confronted with choosing partners in municipal administrations, and this may precipitate a national cabinet crisis.

The Nenni Socialist party's central committee, meeting on

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

24 November, may approve the party directorate's suggestion that the party collaborate with the Christian Democrats, Social Democrats, and Republicans in some 150 city councils where the government coalition failed to win a majority. Acceptance of such an offer in any sizable number of municipalities, however, would antagonize the Liberal party and other conservative elements among Premier Fanfani's parliamentary supporters and thus risk disrupting his government. Fanfani would prefer to draw the Socialists further away from the

DISTRIBUTION OF VOTE IN ITALIAN ELECTIONS
 (PERCENT OF TOTAL VOTE)

	1956 PROVINCIAL	1958 PARLIAMENTARY	1960 PROVINCIAL
Christian Democrats	38.9	42.3	40.3
Democratic Socialists	7.5	4.7	5.7
Liberals	4.2	3.4	4.0
Republicans	1.3	1.4	1.3
Total Center	51.9	51.8	51.3
Communists		23.1	24.5
Nenni Socialists	35.2*	14.7	14.4
Total Left	35.2	37.8	38.9
Neo-Fascists		4.6	5.9
Monarchists	10.9**	4.7	2.9
Total Right	10.9	9.3	8.8
Others	2.0	1.1	1.0

*Communists and Nenni Socialists ran together.
 **Neo-Fascists and Monarchists ran together.

01116 A

17 NOVEMBER 1960

neo-Fascists, who are already allied with the Christian Democrats in the Sicilian regional government and in Rome and other cities on the mainland.

ITALY
NEW DISTRIBUTION OF SEATS ON KEY CITY COUNCIL

	CHRISTIAN DEMOCRATS	DEMOCRATIC SOCIALISTS	LIBERALS	REPUBLICANS	COMMUNISTS	NENNI SOCIALISTS	NEO-FASCISTS	MONARCHISTS	OTHERS
Rome (60 seats)	28	3	3	1	19	11	12	3	--
Milan (60 seats)	35	8	6	--	17	17	5	2	--
Turin (60 seats)	27	8	6	1	20	12	2	2	2***
Genoa (60 seats)	27	6	3	1	22	17	4	--	--
Venice (60 seats)	23	4	2	--	14	13	3	--	1*
Florence (60 seats)	22	4	3	--	20	8	3	--	--
Naples (60 seats)	21	1	1	--	19	8	3	30	--
Palermo (60 seats)	24	2	2	--	9	4	5	5	9**

*Independent **Disident Christian Democrats ***Local Autonomy party

01118 B

17 NOVEMBER 1960

Communists by means of local alliances--all the more because Communist electoral gains in November brought the combined Socialist-Communist vote to nearly 39 percent.

The Democratic Socialists and the Republicans have already approved the Socialist directorate's proposal. Fanfani, however, must keep in mind the attitude of his party's third partner, the conservative Liberal party, which might threaten to withdraw from the national coalition in protest and in any event would exert strong pressure on the Christian Democratic right wing. The right wing, in turn, will urge further local alliances with the

The implications of these maneuvers for the stability of the national government may not become apparent before the Nenni Socialists hold their congress, expected in January or February 1961. The Socialists made a strong showing in major cities, and Nenni may hope to be able to point to widespread local alliances with the Christian Democrats to counter criticism of his failure to match the Communists' over-all electoral gains. His party's left wing will argue for a return to a close rapprochement with the Communists, although resentment over Socialist losses to the Communists may have somewhat reduced the influence of the left wing within the party.

Whether or not a broad pattern of Nenni Socialist - Christian Democratic local alliances does evolve, Fanfani may have to deal with a more

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

independent attitude on the part of the Democratic Socialists. This party may exploit its slight but unexpected electoral gains over 1958 to urge local alliances with the Nenni

Socialists, while at the same time pressing Nenni for a more forthright national stand against the Communists.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

PART III

PATTERNS AND PERSPECTIVES

THE UNITED NATIONS SECRETARIAT

The questions of the authority of the UN secretary general and the personnel and functions of the Secretariat were brought into the foreground this fall by Khrushchev's bitter attacks on Hammarskjold and by his demand that the secretary general's office be replaced by a three-man "collective executive body" composed of representatives of the West, the Communist bloc, and the neutral nations. Soviet leaders have long been dissatisfied with the Secretariat's personnel setup and procedures; they feel the Western powers, particularly the US, have a predominant voice in the UN administration.

The campaign by Moscow to get Soviet bloc nationals into key policy-making positions in the Secretariat has been based on the premise that equitable geographic distribution should be the paramount consideration in hiring UN civil servants. It has had the support of the Asian, and more recently African members, which have long held the view that they were inadequately represented. These members tend to subordinate all other criteria for employment on the Secretariat.

Khrushchev's original proposal of 23 September to replace the secretary general with a triumvirate is regarded by practically all UN members as unrealistic because it would require an amendment to the Charter--which in turn is subject to approval by the Security Council and to parliamentary ratification by a majority of member states. However, the USSR's suggestion may have led to Ghana's proposal of 30 September urging the creation of an advisory group of under secretaries representing the

current distribution of power in the General Assembly. The Afro-Asian bloc would probably be susceptible to the argument that the USSR must be given some concession to its point of view and may regard Ghana's proposal as a practical solution.

Creation of such an advisory group would, however, give the Russians power to hamper--if not actually to control--the Secretariat's operations. It would also introduce political considerations on a level just under the secretary general and thus prejudice the independent mediation functions of the office as they have evolved during the seven years under Hammarskjold.

Office of Secretary General

Since he assumed office in April 1953, Hammarskjold has increased the powers and prestige of the office of the secretary general beyond those contemplated in the UN Charter. His skill as a negotiator and mediator has led UN members increasingly to call on him to help settle international disputes; his standing as something approaching an independent force in world affairs has risen steadily.

Hammarskjold has further expanded the power of his office by stationing high-ranking UN officials responsible only to him in various trouble spots. The three "UN ambassadors" to date are all Western Europeans: Pier Spinelli (Italian) in Jordan, Adrian Pelt (Dutch) in Guinea, and Eduard Zellweger (Swiss) in Laos. There are 21 Swiss employed at the professional level, although Switzerland is not a member of the UN. However, Hammarskjold has employed other

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

nationalities on his ad hoc investigatory commissions, notably Rajeshwar Dayal of India, who now is chief of UN operations in the Congo and was also one of three chiefs of the UN

**BUNCHE****CORDIER**

which the secretary general began. Their most recent assignment outside New York was in the Congo this summer. Cordier, in addition, has at times been Hammar-skjold's chief contact with the American UN delegation.

A third long-standing adviser of Hammar-skjold's is Philippe de Seynes of France, under secretary in charge of the Department of Economic and Social Affairs. De Seynes has recently been negotiating with Brussels about the Congo's frozen assets.

The highest-ranking Soviet national in the Secretariat is

Georgy Petrovich Arkadyev, under secretary in charge of the Department of Political and Security Affairs. Arkadyev's assistant is H. A. Wieschoff of the United States. Wieschoff--who formerly handled trustee-

observer group in Lebanon in 1958.

In making these appointments, Hammar-skjold has avoided naming nationals from countries directly involved in the specific dispute and has picked individuals dedicated to the principle of "quiet diplomacy." The precedent that no national of the five permanent members of the UN Security Council be appointed to these ad hoc commissions has long been established.

Two of Hammar-skjold's closest advisers are American citizens: Dr. Ralph Bunche, under secretary for special political affairs, and Andrew Cordier, executive assistant to the secretary general. Both men have been with Hammar-skjold since 1953 and have often been assigned to complete negotiations

**ARKADYEV****DE SEYNES**

ship and dependent-area affairs --is apparently involved with UN planning for the Congo at this time and has also been used as a contact with the American delegation regarding Congo affairs.

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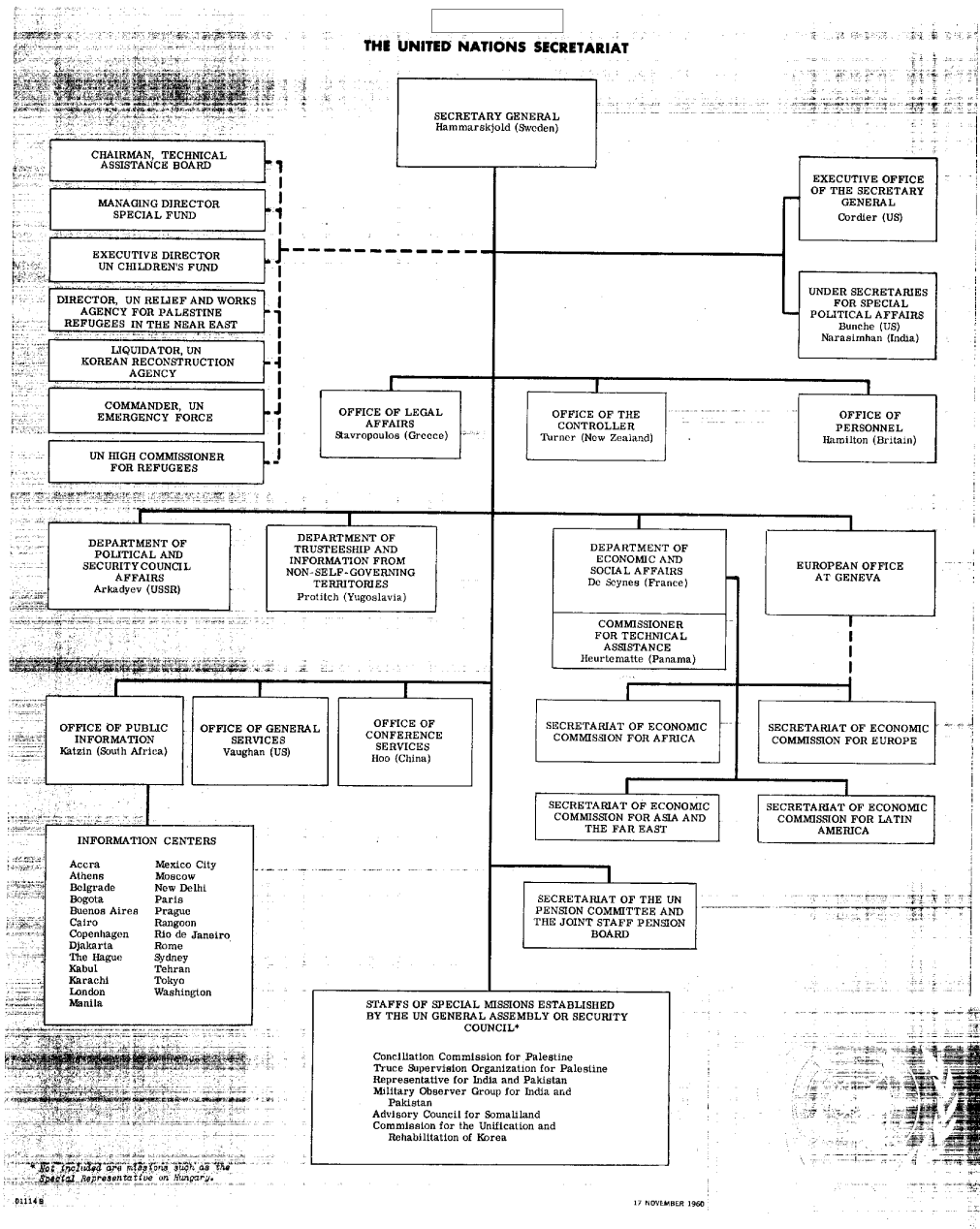
SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

In addition to the New York headquarters, there is a European office at Geneva, directed by Italy's Spinelli. Geneva is also the headquarters for the Economic Commission for Europe, headed by Sakari Tuomioja (Finnish), and the offices of the High Commissioner for Refugees, of which Auguste Lindt

(Swiss) is the chief. The secretary general has also set up small field offices for the Economic Commission for Asia and the Far East (ECAFE), the Economic Commission for Latin America (ECLA), and the Economic Commission for Africa (ECA)--none of which is headed by a Soviet national.

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CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

Geographic Distribution

According to the UN Charter, "the paramount consideration" in employing the staff of the UN Secretariat is to secure the highest standards of efficiency, competence, and integ-

professional people for long-term UN assignments.

The conduct of Soviet nationals on the Secretariat has been one factor making it difficult for Hammarskjold to correct the imbalance.

Soviet nationals who are hired often delay their arrival at UN headquarters for more than two weeks by reporting first to the Soviet UN mission in New York. UN employees from the USSR do not stay in their jobs for more than three

years, and they often resign without notice while on home leave. There have also been cases in which Soviet nationals have used UN assignments as a cover for espionage. Many Soviet bloc applicants cannot meet minimum language requirements for higher UN jobs, but they refuse to accept positions at the lower professional levels.

Remedial Measures

Hammarskjold has made some progress in his program to reorganize the Secretariat to meet some of the demands of the Asian,

COMMITTEE OF EXPERTS

Guillaume Georges-Picot - Former UN representative of France; former UN under secretary for social affairs.

Francisco Urrutia - Former UN representative of Colombia.

A. A. Fomin - USSR Foreign Ministry; former UN representative of the USSR.

Omar Loutfi - UN representative of the UAR.

Sir Harold Parker - Member, International Civil Service Advisory Board; former chief civil servant in the British Defense Ministry.

Alex Quaison-Sackey - UN representative of Ghana.

C. S. Venkatachar - India's chief representative to Canada.

Dr. Herman B. Wells - President, University of Indiana; former member of the US delegation at the UN.

GEOGRAPHIC DISTRIBUTION OF UN PROFESSIONAL STAFF

	DESIRABLE DISTRIBUTION *	NUMBER ON STAFF 31 AUG. '59	NUMBER ON STAFF 31 AUG. '60	RATIO TO 1959	RATIO TO 1960
AFRICA	27	35	43	130%	159%
ASIA AND FAR EAST	177	201	211	114%	119%
EASTERN EUROPE	216	68	84	31%	39%
WESTERN EUROPE	299	355	360	118%	120%
LATIN AMERICA	77	101	108	131%	140%
MIDDLE EAST	24	39	41	163%	171%
NORTH AMERICA	388	291	204	75%	76%
TOTALS	1,208	1,090	1,141	92%	94%

*These quotas were set before the admission of 17 new Afro-Asian members this fall.

17 NOVEMBER 1960

rity. Due regard must, however, be paid to the importance of recruiting on a wide geographical basis. The General Assembly exercises control over and gives direction to the administrative and financial processes of the Secretariat through its Fifth (Administrative and Budgetary) Committee.

Western Europe and Latin America have more professional positions within the Secretariat than their assigned quotas allow, while the Soviet bloc is underrepresented. The Asian and African members as a bloc were over the UN quotas as of August 1960, but many countries within this grouping are not represented. The Afro-Asians point out, moreover, that the quotas, although revised periodically, do not reflect the present power distribution in the General Assembly. Revision along these lines would give them many more UN staff positions.

The present imbalance--a result of the unavailability of qualified applicants from some areas at the time the UN was founded--has been aggravated as the newly independent states have joined the international body. These same states, however, can seldom spare their relatively few educated pro-

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

African, and Communist states for more professional positions. The number of Soviet bloc personnel in such positions increased from 68 to 84 in one year--although it is still far below the assigned quota of 216. To aid the secretary general, the 1959 General Assembly session recommended that he appoint a "committee of experts" to advise him on ways and means of revamping the Secretariat. An eight-member body was appointed by Hammarskjold in August 1960 and is expected to submit a report to the 1961 General Assembly session.

The USSR--presumably to offset the antagonism of many Afro-Asian members to its attacks on the secretary general--announced on 4 November that it would leave to the committee of experts its demands for a broad reorganization of the Secretariat.

Hammarskjold and his committee will probably continue the reorganization program, and the secretary general will probably retain his present personal "cabinet" until the end of his term in April 1963.

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RECENT CHANGES IN SOVIET INDUSTRIAL ADMINISTRATION AND PLANNING

Changes being made in the system of industrial administration in the USSR reflect the regime's continued concern over the problem of finding the most effective way of achieving its economic goals and at the same time encouraging local initiative. These changes, involving both organizations and planning techniques, are designed to provide some operational leeway at the local level within a system of central control.

Since the industrial reorganization of 1957, the boundaries of the territories administered by some of the original 105 Councils of National Economy (sovnarkhozy) have been realigned. Some sovnarkhozy have been merged and others divided, but the present system of 102 sovnarkhozy preserves the original pattern of a large number of economic-administrative units covering all but about one fifth of the total Soviet industrial activity. The formal line of command for operational decisions continues to

flow from the USSR Council of Ministers through the republic councils of ministers to the sovnarkhozy, although an additional line of command for certain activities has been added with the creation of super-sovnarkhozy in three republics.

Various other organizational changes affect the planning, coordination, and control of industrial activity. At this point the regime appears reasonably satisfied with the territorial economic structure as a workable, basic administrative arrangement, but its inherent shortcomings, as in the past, will probably continue to call for innovations and refinements.

Background

The creation of the sovnarkhozy to administer industry along territorial lines was a radical departure from the functional ministerial pattern of the Stalin period. Under that system, industrial management was plagued by departmental barriers and a dearth of local

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

initiative. This led adjacent enterprises of different ministries to take circuitous routes through channels to Moscow in order to carry out the simplest transactions with each other. There were irrational transportation hauls between distant plants of the same industrial ministry and often duplication of facilities among the various ministries.

The sovnarkhoz system eased many of these difficulties but created problems of its own--recognized by Khrushchev even prior to the reorganizations--which have thus

far defied easy solution. From the outset, the leaders were confronted with the need to counteract "localist" inclinations among regional administrations. Some sovnarkhozy tended to place regional interests ahead of the national plan; they failed, for example, to honor deliveries outside their own jurisdictions and sought to develop areas of self-sufficiency even when it was clearly uneconomical to do so.

The regime also has been faced with the problem that imposition of institutional safeguards against such "distortions"

EVOLUTION OF THE SOVIET CENTRAL PLANNING APPARATUS
ASSIGNMENT OF SELECTED PLANNING FUNCTIONS AMONG THE PRINCIPALLY RESPONSIBLE ORGANIZATIONS

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TIME PERIOD	LONG-RANGE PLANNING	CURRENT PLANNING	SUPPLY ALLOCATION	LABOR AND WAGE MATTERS	TECHNICAL INNOVATIONS
PRIOR TO 1948	USSR Gosplan	USSR Gosplan	USSR Gosplan; Ministries	USSR Gosplan	USSR Gosplan; Ministries
1948	USSR Gosplan	USSR Gosplan	State Committee for Material-Technical Supply (Gossnab); Ministries	USSR Gosplan	State Committee for New Technology (Gostekhnika); Ministries
1951	USSR Gosplan	USSR Gosplan	Gossnab State Committee for Food and Industrial Supply (Gosprodsnab); Ministries	USSR Gosplan	USSR Gosplan; Ministries
1953 (AFTER STALIN'S DEATH)	USSR Gosplan	USSR Gosplan	USSR Gosplan; Ministries	USSR Gosplan	USSR Gosplan; Ministries
1955	USSR Gosplan	State Commission for Current Planning (Gosekonomkomissiya)	Gosekonomkomissiya; Ministries	State Committee for Labor and Wages; USSR Gosplan	State Committee for New Technology (Gostekhnika); Ministries
1957 (AFTER THE REORGANIZATION)	USSR Gosplan	USSR Gosplan	USSR Gosplan; Directorates of Supply and Sales of the abolished ministries merged into USSR Gosplan	State Committee for Labor and Wages; USSR Gosplan	USSR Gosplan; State Scientific-Technical Committee; Retained ministries
1959-1960	(BEFORE MID-APRIL 1960) USSR Gosplan (AFTER MID-APRIL 1960) USSR State Scientific-Economic Council (Gosekonomsovet)	USSR Gosplan	USSR Gosplan; Main Administrations of Inter-republic Supply	State Committee for Labor and Wages; USSR Gosplan	USSR Gosplan; State Scientific-Technical Committee; State committees for specialized technologies replacing the temporarily retained ministries

NOTE: USSR Gosplan (now the State Planning Committee) has been officially called by other names at different times since World War II, but it has always been popularly referred to as "Gosplan."

01107 2

SECRET

17 NOVEMBER 1960

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

of the national interests might defeat one of the primary goals of the reorganization itself--the encouragement of local initiative. The regime has thus sought in its subsequent alterations of the structure to find the best operational solution.

Republic Sovnarkhozy

Concern over localism, reinforced by a fear of disrupting the flow of supplies to industrial enterprises, led to a considerable expansion in the duties of USSR Gosplan--the State Planning Committee--at the time of the reorganization in 1957.

In 1958, the responsibility for coordinating intersovnarkhoz supply and distribution tasks within each republic was transferred from USSR Gosplan to the republic gosplans. This move left the superior body with the burden of interrepublic supply and distribution tasks and its traditional planning activities. Planning and supply problems, however, continued to be the subject of much criticism in the Soviet press throughout 1959 and 1960.

A new attack was made on these problems in mid-1960 in the four republics having more than one sovnarkhoz within their boundaries--the Russian, Kazakh, Ukrainian, and Uzbek--where the burden of handling intersovnarkhoz relations was overtaking existing republic organizations. In the Uzbek Republic, the difficulties were overcome by simply merging its five sovnarkhozy into a single republic sovnarkhoz. In the remaining three republics, super-sovnarkhozy were created at the republic level under the Council of Ministers.

By this move, the republic gosplans were relieved of the time-consuming tasks of monitoring regional sovnarkhozy operations and were allowed to concentrate on their planning responsibilities. The republic sovnarkhozy were charged with

coordinating the work of the lesser sovnarkhozy, supervising plan fulfillment and the fulfillment of delivery contracts, and ensuring the proper use of materials, monetary funds, and labor.

The republic sovnarkhozy, which can issue decrees and directives themselves, may be more effective than were the republic gosplans which, as staff organizations, could act only through the republic councils of ministers. Nevertheless, the preservation of a direct line of command from the republic councils of ministers to the regional sovnarkhozy, alongside the new line of command from republic to regional sovnarkhozy, may create operational confusion and uncertainty.

The staffing of the new bodies has not been announced. Appointment of RSFSR Deputy Premier Vasily Ryabakov to the chairmanship of the RSFSR super-sovnarkhoz, and a similar appointment in Kazakh, however, suggest that a high level of skill and authority will be sought in the new councils.

Gosekonomsovet

In April of this year, long-range planning functions were taken from USSR Gosplan and given to the State Scientific Economic Council (Gosekonomsovet). This move stripped USSR Gosplan of all its former broad responsibilities except for short-term planning at the national level and for dealing with operational questions which arise in connection with plan fulfillment.

Gosekonomsovet, together with the union republic ministers and departments, is to elaborate long-range--15 to 20 year--economic plans, as well as five-to-seven-year plans. USSR Gosplan's "summary" sections (such as National Economic Plan, Balances and Material-Technical Supply, and Labor and Wages) are to be transferred to Gosekonomsovet, while

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

Gosplan retains only those sections--primarily industrial branches--needed for its short-term planning functions.

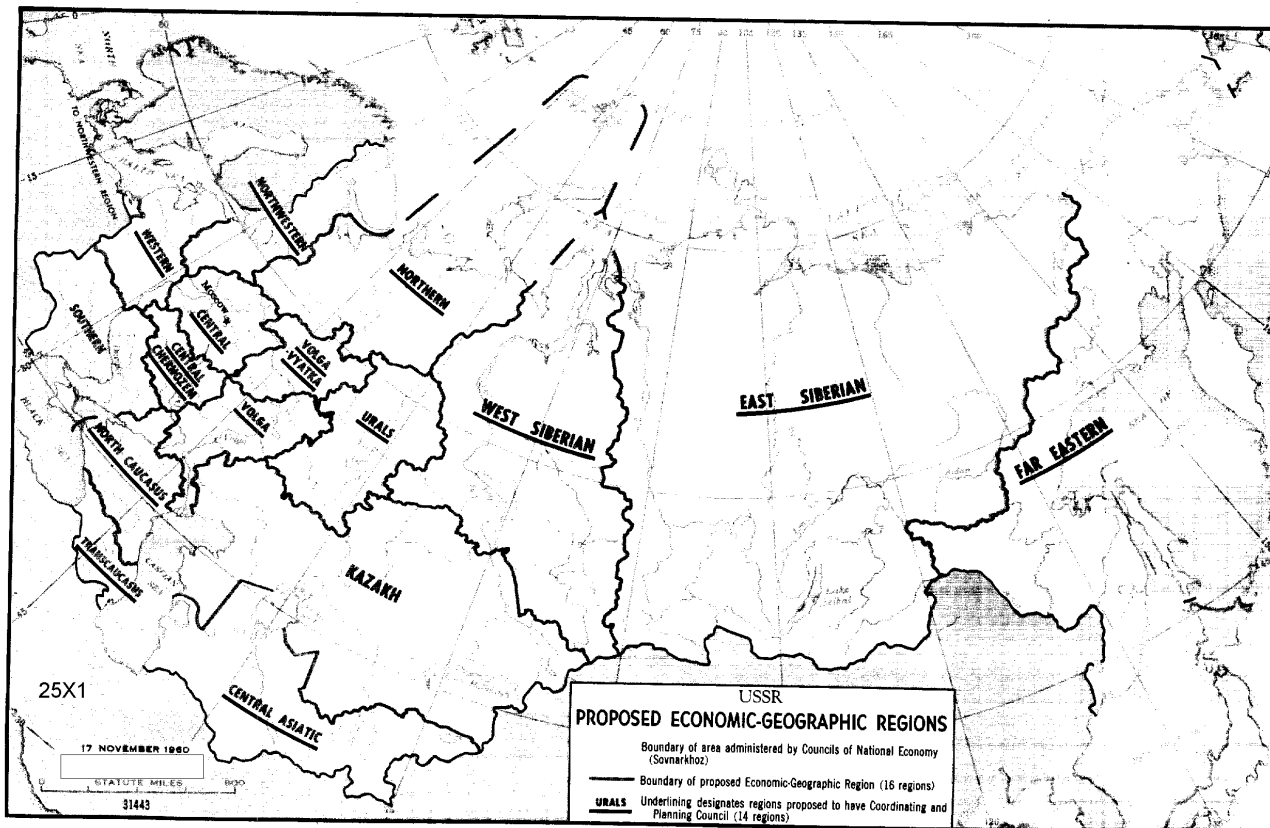
Planning departments which formerly dealt with only one main planning agency at the national level, Gosplan, now must deal with two planning agencies--an arrangement which is likely to be more complicated than the old one.

Planning, Coordination Councils

The possibility of achieving more effective planning and coordination of economic activity by creating national economic regions--each of which would generally contain several sovnarkhozy--was actively discussed at the time of the 1957 industrial reorganization and has been a frequent topic in the Soviet press since that time. In mid-1960 a plan was

revealed which would rearrange the 13 basic economic zones formerly employed in regional planning into 16 new economic regions, and would establish Economic Councils for the Planning and Coordination of the Work of the Sovnarkhozy in 14 of these regions. This plan was apparently conceived about the same time the republic-level sovnarkhozy were created.

Although creation of the republic sovnarkhozy, with their territorial sections, may be as far as the regime will go at present toward meeting the need for coordinating economic activity in the large regions, formation of the suggested additional councils cannot be ruled out. The plan stressed that creation of the republic sovnarkhozy was a step toward solving operational problems, but noted that other organs were also needed to coordinate adjacent sovnarkhozy

**SECRET**

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

development. The republic sov-narkhozy, oriented toward operational problems of implementing current plans, probably are not ideally suited to handling problems of long-term patterns of industrial development.

The 14 coordinating and planning councils would examine in detail--for planning organs--proposals such as those for the development of complementary industries in adjacent sov-narkhozy within each large region and for the correct distribution of capital investment to attain the desired patterns of specialization. The councils presumably would work closely with the long-term planning agency, Gosekonomsovet, and an official of the latter has indicated that the councils will be subordinated to his organization.

Results

The changes made and contemplated will make the individual sov-narkhoz responsible for administering programs devised by a larger number of staffs than in the past. Such operational decisions as are made by the sov-narkhozy in the implementation of these programs will be subject to additional review. Planning agencies, now free to devote more

attention to basic planning problems, may be more resistant to sov-narkhoz deviations and may even produce plans less susceptible to improvisations from below.

To the extent that greater coordination of activity in adjacent sov-narkhozy leads to more specialized patterns of industrial development, the opportunities for the individual sov-narkhoz to influence its own course of development are reduced. To the extent that the planning and monitoring of intersov-narkhoz supply relationships are improved, default on intersov-narkhoz delivery contracts may be reduced. Thus sov-narkhozy would have fewer excuses for justifying uneconomical development of local sources, less reluctance to shop around in adjacent sov-narkhozy, and less reason for maintaining stockpiles as cushions against erratic supply flows.

The regime apparently is gambling that these measures will restrict the undesirable exercise of local initiative in the pursuit of local interests without great sacrifice of such gains as may have been achieved in stimulating that initiative in the implementation of the national plan.

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SOUTH KOREANS LOOK TO CHANG GOVERNMENT FOR ECONOMIC PROGRESS

"Today the South Korean people are in an indescribably wretched plight. Workers' wages are less than one third their minimum living expenses. Millions of unemployed and semi-unemployed are on the verge of starvation, and hundreds of thousands of child beggars are tramping the streets."

So said North Korean Premier Kim Il-sung in a "Liberation Day" address in Pyongyang

on 14 August in which he called for an interim North-South federation and a "supreme national committee" of representatives from both sides to work out a program of economic and cultural cooperation. Without such cooperation, Kim asserted, talk of overcoming South Korea's "economic catastrophe" was only "empty phrasemongering." The North Korean premier told his listeners that attempts to develop the South Korean economy through foreign aid would further weaken the economy, "which has already been devastated

SECRET

SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

because of its subjugation by American monopoly capital."

Kim's address repeats a theme recurrent in North Korean propaganda since the fall of the Rhee government--the suggestion that North Korean heavy industry can be wedded to South Korean light industry and agriculture to create a viable economy. He claims that full-scale economic cooperation between the North and South would make it possible to achieve economic independence at the same levels of living as prevail in the rest of Asia.

There is enough substance to this North Korean propaganda line to make it attractive to some South Korean listeners. Although the grievances which drove the students into the streets were political rather than economic and the revolution a conservative rather than a radical one, the South Korean people clearly expect more of the new government than an end to despotism. Since April, the Koreans have become more aware of the efforts in other Asian countries to raise living standards, and their ambitions are reinforced by the realization that for the first time since independence they may be in a position to do something about it.

The public's distrust of Communism engendered by bitter personal experiences during the Korean war has provided the Chang government with an initially strong bulwark against neutralist or leftist pressures. Nevertheless, a prolonged inability of conservative leaders to demonstrate reasonable progress toward a better life under the democratic system could foster neutralist or totalitarian movements.

Immediate Background

The Chang government is starting out in an atmosphere

charged with recriminations against the supporters of former President Rhee. These unfortunately include most of the influential businessmen on whom the country must depend for a large share of its economic development.

It is widely acknowledged by both foreigners and Koreans that no Korean businessman could make an honest living during the Rhee era because of the multiplicity of economic controls administered by corrupt officials and politicians. Prime Minister Chang and other Rhee foes are consequently inclined to take a lenient attitude toward businessmen and to settle for payment of back taxes and fines.

The public, however, is pressing for ex post facto legislation covering irregularities committed during the Rhee era, and there are indications that jail sentences for contributors to Rhee's political machine may be stipulated. Excessive reprisals against businessmen would hamper the new government's plans for economic development.

The leading example of "large-scale tax evaders" is Yi Pyong-chol, who received a bill for about \$6,000,000 in back taxes and fines. Yi's interests include wine, tire, and textile manufacturing, canning, sugar refining, processing of marine and mineral products, banking, insurance, and investments. Chong Jae-ho, a poor second, was assessed \$2,000,000 for taxes in connection with his extensive activities in the export-import and textile fields.

Immediate Problems

Prime Minister Chang's budget address on 30 September advocated increased farm credits, diversification of crops, livestock raising, and sericulture; development of electric power, public works, and marine

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

resources; plans to achieve rapid economic growth with emphasis on small business enterprises; establishment of a realistic exchange rate; and a broad welfare program.

Multiple Exchange Rates

South Korea's most serious immediate need is the replacement of its complicated system of multiple exchange rates by a single realistic rate; the present system has served more to maximize dollar earnings from US aid and UN forces' expenditures than to promote international trade. Besides discouraging exports and distorting industrial development, the system has exerted a depressing influence on the production of cotton and certain types of grain by making it cheaper to import competing items.

Balance-of-Payments Deficit

A second problem confronting the Chang government is the country's enormous balance-of-payments deficit. While the deficit is closely related to the unrealistic exchange rate, it is also caused by other factors. The shrinkage in rice exports, for example, stems not only from high prices but from the fact that Koreans now are eating more rice. Before World War II one third of the caloric intake of the Korean diet was derived from rice. In recent years rice has provided nearly half of the caloric intake. Korea has been able to afford more rice because of the availability of foreign aid to cover its balance-of-payments deficit.

In 1959, export receipts of \$20,000,000 paid for less than 10 percent of Korea's commodity imports--a pattern which has existed since 1945. The balance of Korean imports has been fi-

nanced by US aid and earnings from the spending of UN forces stationed in Korea.

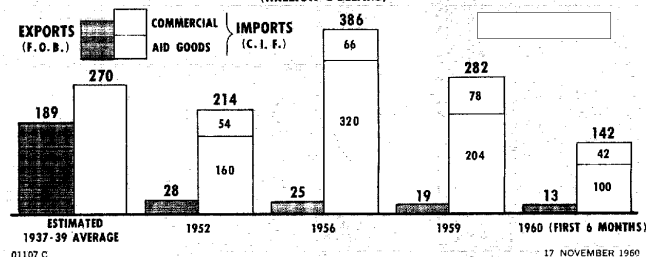
Korea has always been a deficit nation in international trade, although its trade gaps were smaller before World War II. Prewar exports from both North and South Korea averaged approximately \$236,000,000 against \$303,000,000 average imports, leaving a trade gap of only \$67,000,000. Of these amounts, however, what is now South Korea accounted for only an estimated 20 percent of exports and 10 percent of imports.

Rice, marine products, and minerals were the chief prewar exports, most of which went to Japan; Japan in turn supplied 90 percent of Korea's imports. After the war, the Rhee government attempted to free Korea of dependence on Japanese trade, but it failed to develop adequate substitutes because of ill-considered trade practices and inability to promote markets elsewhere. When Rhee in 1959 placed an embargo on trade with Japan in an attempt to gain political concessions, it was South Korea which suffered most. The Chang government has taken its first step to revive trade by seeking a reconciliation with Japan, its only important prospective customer for rice and other products.

Defense Burden

Another problem is the burden of supporting a defense establishment of 600,000 men in

SOUTH KOREAN INTERNATIONAL TRADE
(MILLION DOLLARS)



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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

the ground, navy, and air forces without resorting to currency inflation. In recent years, defense has averaged roughly one third of the government's budget. While the prime minister would like to see a 100,000-man

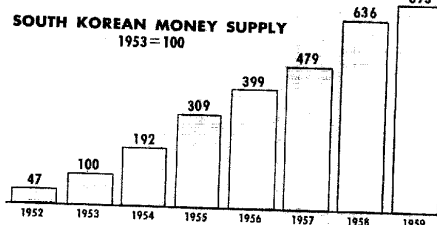
prices rose. Prices today are about 70 percent higher than in 1955.

Money and credit have been relatively better controlled during the past year. Recently the Seoul wholesale price index showed a decline as the fall harvest began to flow into the market. On 14 October the index was only 10 percent above the July-December 1959 average. A battle inside the Chang government seems to be shaping up, however, between Minister of Commerce and Industry Chu Yohan, who advocates inflation to speed economic development if capital cannot be obtained by other means, and Finance Minister Kim Yong-son. Each claims to be the top economic minister in the government.

The usual effects of inflation, which discourages savings and stimulates consumption and speculative activities, are doubly severe in South Korea with its essentially private-enterprise economy. In 1959, consumption amounted to nearly 93 percent of gross national product (GNP) which, without US aid in financing imports, would have left little for investment.

Even allowing for the additional goods and services avail-

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17 NOVEMBER 1960

able through foreign aid, economists calculate that gross investment--investment before depreciation--in South Korea in 1959 amounted to only 12 percent of GNP. Net investment should total at least 15 percent of GNP for a nation to achieve an

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SECRET

CURRENT INTELLIGENCE WEEKLY SUMMARY

17 November 1960

annual growth rate of 5 percent. Without large-scale injections of American aid, South Korea's domestic investment is insufficient to maintain even the present level of living, given the current annual population increase of well over 2 percent. Korea's economic growth rate, at its peak of 9.7 percent in 1957, when American aid had maximum impact, declined to 4.5 percent in 1959; the slowing growth rate directly reflects a decline in US aid.

Longer Term Problems

Whatever short-run efforts are made to improve the economy, South Korea's poverty of basic resources remains a fundamental hindrance. Most of Korea's pre-war heavy industry lies in Communist North Korea, and that industry which was in the South, including light industry, was mostly destroyed during the Korean war. Aside from moderate quantities of iron ore, graphite, tungsten, bismuth, and anthracite coal, there are few known mineral reserves of commercial importance. Forest resources have been depleted.

Agriculture

Agriculture, which furnishes a livelihood for about 70 percent of the population and produces 83 percent of the nation's food requirements, is the mainstay of the economy. South Korea has a higher percentage of arable land than most of Asia, but it ranks fifth among the nations of the world in population density. Moreover crop yields can increase significantly only if agriculture is given vigorous government encouragement, with improved irrigation methods and seeds, increased use of chemical fertilizers and insecticides, and more efficient farming techniques.

Disease is a major threat to Korean crops. Many farmers

**SOUTH KOREAN EXPENDITURE
ON GROSS NATIONAL PRODUCT**
(MILLION DOLLARS IN 1958 PRICES)

	1955	1957	1958	1959 (EST)
TOTAL CONSUMPTION	1,807	1,961	2,095	2,330
GROSS INVESTMENT	253	334	300	313
NET IMPORTS	-160	-220	-170	-263
GROSS NATIONAL PRODUCT	1,900	2,075	2,225	2,380
PER CAPITA GNP (DOLLARS)	89	93	98	101
GNP GROWTH RATE	4%	10%	7%	5%

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17 NOVEMBER 1960

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have lost as much as 30 percent of their vegetable crops and 50 percent of their tomatoes because of plant diseases. There are almost no trained Korean plant pathologists or much official interest in this field.

To lessen its balance-of-payments deficit, South Korea might be able to earn substantial foreign exchange by restricting domestic consumption of high-priced rice and trading the surplus to other countries for cheaper grains, as it was forced to do before World War II. Foreign demand for the type of rice raised in Korea is declining, however, and the country's export potential will only be improved if the Chang government succeeds in shifting rice acreage to cotton, soybeans, and oilseeds and emphasizes livestock raising for export. There is also an export market for Korean fish products, provided present low production can be raised through such means as government extension of credit, marketing assistance, and encouragement of joint ventures with Japan.

Industry

The principal role of South Korea's small industry to date has been to supply scarce consumer items to the domestic market and thereby reduce imports. Shortages of capital, managerial talent, and competent technicians to staff even existing plants are largely responsible for the feeble gains scored by the industrial sector in 1959. Moreover, poor

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SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY****17 November 1960**

planning resulted in the appearance of large excess capacity in many areas--83 percent in flour milling, 80 percent in sugar refining, 72 percent in raw-silk processing, 61 percent in worsted-yarn manufacturing, 40 percent in electric power, 39 percent in cotton cloth, and 22 percent in cotton-yarn manufacturing.

A comprehensive long-range industrial development plan is being drawn up with American assistance, and the Chang government has proposed capital expenditures over an undetermined period of \$810,000,000 of which the United States would be asked to contribute more than half. A more important source of capital may prove to be private investment, given sound fiscal reforms and a

AMERICAN AID TO SOUTH KOREA
(ACTUAL DISBURSEMENTS IN MILLION DOLLARS)
TOTAL AID, 1945-1960 = \$3,803,000,000

US FISCAL YEARS	CUMULATIVE 1945-58	1959	1960
MILITARY ASSISTANCE	614	215	254
ECONOMIC ASSISTANCE			
PL-480 SALES	164	46	24
TECHNICAL COOPERATION	7	6	7
OTHER	2,035	222	209
TOTAL	2,820	489	494

IN ADDITION, DEVELOPMENT LOAN FUND COMMITMENTS, OF WHICH LITTLE HAS BEEN DISBURSED, TOTALLED \$7,000,000 IN 1959 AND \$12,000,000 IN 1960.

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17 NOVEMBER 1960

reasonable application of the Foreign Investment Law, which Chang has promised. With encouragement, Korean light industrial products might become competitive in the world market.

The Koreans by and large are hard working but they have lacked dynamic and aggressive leadership in the economic field. There is some question whether Prime Minister Chang possesses sufficient drive to propel his nation toward economic viability, although he is universally acknowledged to be sincere, honest, and politically capable. Last month, Chang weathered the first challenge to his leadership by the

"old guard" of his Democratic party, and he now commands a shaky majority in the National Assembly. Chang's demonstrated political skill in handling his opponents enhances prospects that his government may be able to carry out its program.

North vs. South

How does South Korea's performance compare with North Korea's today? Making allowances for exaggeration in North Korea's statistical claims, 1959 per capita GNP in North Korea probably slightly exceeded South Korea's \$100. North Korea's smaller population--9,000,000 against South Korea's 23,000,000, greater natural resources per capita, emphasis on heavy industry at the cost of sharply reduced living standards, and greater Communist bloc aid per capita to North Korea from 1954 to 1958 probably account for the higher per capita GNP in North Korea today. If standards of living alone are compared, however, the South Koreans are better off because of their present high consumption rate.

The Communist bloc's aid to Pyongyang has apparently declined greatly in recent years--from 35 percent of North Korean GNP in 1954 to about 3 percent in 1959 and slightly less in 1960. The annual growth rate of the North Korean economy has only moderately declined, however, from about 18 percent immediately after the Korean war to about 15 percent today.

North Korea's ambitious seven-year plan, which starts next year, is reportedly aimed at raising per capita output of basic industrial commodities substantially above 1959 Japanese levels to approximately the Soviet 1958 level, with emphasis also being placed on increased consumption.

The challenge of the Communist north is thus a formidable

SECRET

SECRET**CURRENT INTELLIGENCE WEEKLY SUMMARY**

17 November 1960

one and, under present conditions, will in time conspicuously widen the gap in the relative economic potentials of the two Koreas. If South Korean Government policies do not bring about marked economic progress, there may be renewed agitation by revolutionary elements led by university students, who played a key role in overthrowing the Rhee government.

While the Chang government and its successors probably

cannot hope to overtake North Korea economically on a per-capita basis, they may be able to satisfy the South Korean people to a reasonable degree if they make efficient use of their resources and if foreign aid continues at substantial levels. Fortunately, the present atmosphere in Seoul for a serious attack on the nation's ills is more favorable than at any time since independence.

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